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THE TARIFF AND THE EXPORT TRADE OF THE UNITED STATES

In considering the effect of a protective tariff upon the export trade of the United States, I shall look at the question from a business point of view, and attempt to measure the influence of the tariff as it is developed in business relations, and shown in practical results. I shall discard all discussion of theory, and avoid all doctrinaire conclusions. I do not attach much importance to these considerations, in comparison with the actual results of a fiscal policy, as determined by experience extending over a long period of time.

Neither do I believe that it is worth while to borrow trouble about the possible effects of our own tariff policy in determining that of other nations. We have heard much recently about the probabilities of a general combination among European nations, for retaliatory legislation for the exclusion of American-made products from these countries, on the ground that their own products are excluded from the United States by customs rates which are practically prohibitive in direct competition with American-made goods of the same general character. Fear has been expressed that the United States will ultimately find the great manufacturing nations of the world united in a trade league against us. I cannot share in this apprehension. Nothing is more selfish than commerce, and no sentimental consideration of national resentment against the United States because of its protective policy, can ever bind the European nations together in such a movement, and can never induce the individual traders of any one of these nations to consent to such a movement. Men will buy and sell wherever they can turn a profit thereby. For such trade as is possible with the United States, there will always be the most intense competition, not only among the nations, but among the individual manufacturers and merchants of each nation; and always with the expectation that the time will eventually come, as it undoubtedly will, when the American tariff barriers will be lowered, and the nation and the individual who already occupy some of the field, will be in the best position to take advantage of the larger opportunity to follow. The foreign trade of the United States is so enormous,

in comparison with that of other countries, and its possibilities are so unlimited and so alluring, that no country will bind itself, by treaty or compact, to exclude itself from future participation in it. Whatever we may think of Mr. Chamberlain's conversion to protection, along the line of preferential tariffs with the British colonies; whatever may be the effect of the adoption of his policy upon our trade with Great Britain, the motive of retaliation against the United States forms no part of it.

The whole course of the foreign commerce of the United States, under a protective tariff, justifies the conclusion that retaliatory legislation need not be feared, and that high duties on foreign products entering this country, do not interfere, in any perceptible degree or measurable manner, with the outflow of American-made products. During the last twenty-five years, although the volume of the imports into the United States has nearly doubled, there has been practically no increase in the value of the manufactured or partly manufactured articles imported. This branch of foreign trade has remained practically stationary, although our population has doubled, and our wealth quadrupled in the interval.

Contrast this fact with the growth of our export trade in manufactures. In 1860 these exports amounted to about \$40,000,000 out of a total export trade of \$316,000,000, the manufactured articles thus comprising 12.7 per cent of our total exports at that time. In 1902 the value of domestic manufactures exported had risen to \$403,641,401 in a total export trade of \$1,355,481,861—an increase in the export trade of 328.9 per cent, and in the export of manufactured articles of over 900 per cent since 1860. But in truth the increase in manufactured exports was far greater than is shown by the above figures from the Commerce and Navigation reports of the Treasury Department. These reports exclude from the category of manufactures a great number of articles which the Census Office classifies as manufactures, and which must be so classified, in my judgment, in order to present any fair picture of our export trade of this description.

Among the commodities which the Treasury Department classifies as products of agriculture, and the census classifies as products of manufactures, may be enumerated such articles as flour, corn meal, bread, biscuits, oils, glucose, glue, oleomargarine,

lard, sugar, molasses, wines, preserved fruits and vegetables, lumber, etc. Some of these articles may be said to lie on the borderland between the two branches of industry; but in every case they are products of agriculture or of forestry which have been increased in value and transformed from their original condition, by definite processes of manufacture. If all such articles, which in a strict sense of the word are products of manufacture, were so classified in the figures of our exports, the sum total of the exports of manufactures for the year 1902 would at once be increased from \$403,641,401 to over \$800,000,000, or more than double what the official figures show these exports to be. This fact should certainly be borne in mind in any attempt to measure the immensity of our export trade in manufactured articles, and the phenomenal rapidity of its growth. Only one nation on the globe, Great Britain, exports an equal value of manufactures, if the census classification is followed.

The record seems to demonstrate that in order to build up a foreign trade in manufactured articles, it is not necessary to correspondingly increase our purchases of similar goods abroad. We have conclusive evidence in Mr. Chamberlain's speeches, that he has studied and been impressed by these remarkable figures. The whole argument might be rested on them, with safety. They are in the nature of a practical demonstration that the tariff does not militate against the growth of an export trade. But it will be well to examine the actual situation with some detail.

So far as our agricultural products are concerned, the question of the influence of the tariff upon the export trade in them, is hardly worth considering. The world takes our foodstuffs, as much of them as we can spare ourselves, because it cannot get along without them. It takes our raw cotton, because it has no other sources of supply that can meet its demands, either in quantity or quality. It takes our meat products and lumber products because they are better and cheaper than it can get elsewhere. It can find no substitute for American-grown tobacco.

The factory and the farm have been joined together in a partnership which means much to both, and which is of great significance in its effect upon our export trade. If we can supply the world with wheat more cheaply than any other country, we can more cheaply supply it with the increasing number of manufactured

foods produced from wheat and other grains. The same is true of lumber, and all the varieties of the manufactures of lumber. To our immense exports of raw cotton there has recently been added the rapidly growing export trade in the various products of the cotton seed. Wherever we have a natural advantage in the production of the raw materials of manufactures, some portion, at least, of that advantage must lie with us when we seek foreign markets for the goods made out of those raw materials. The natural resources of the United States, due to the diversity of our soil, the variety of our climate, the richness of our forests, and the fecundity of our mines, exceed those of any other civilized country. Whether our tariff shall be high or low, this advantage must continue.

If the above considerations are sound, it follows that the tariff can exercise a direct and detrimental effect upon the further extension of the export trade of the United States, only through its restrictive features, and the possible influence of these features upon the relative advantages of our domestic manufacturers, in competition with those of other countries seeking the same trade. In so far as import duties upon imported materials which are necessary for the manufacture of articles intended for export, may add to the price of those materials, they must, of course, affect in some degree the development of our export trade. To determine the extent of this handicap, it is necessary to look a little closely at the manner in which the existing tariff law deals with raw materials of foreign origin.

The first fact to impress us is that nearly 45 per cent of the total imports into the United States, during every year that the present tariff law has been in operation, have entered free of all customs duty. Naturally the great mass of these free entries, aggregating \$353,590,060 per annum, on an average, are raw materials imported by and for our manufacturers. So far as the raw materials which they use are upon the free list, the American manufacturers are in precisely the situation of their most favored foreign competitors, and the tariff does not affect their export trade in any degree. Those not familiar with the subject will be surprised to learn, by an examination of the free list and an analysis of the Treasury returns of imports, how nearly universal is the free admission of manufacturers' raw materials. We need long-stapled cotton from Egypt, to supplement our own in making

finer yarns; we get it as free of customs as the Lancashire spinner. We need raw silk from China, Japan and southern Europe, to feed the looms of our wonderfully developed silk manufacture; we get it on the same terms as England; and within the comparatively short period since this manufacture has taken root in this country, we have passed far beyond the highest point attained by Great Britain before the silk manufacture began to languish and decay in that home of the textile industries. We need rubber from tropical countries, for a rubber industry greater in its extent and its variety of products, than that of any other country. In every line of manufacture which depends upon raw materials of tropical or sub-tropical growth and character, our export trade is unhampered by tariff restrictions.

On the other hand, there are certain raw materials upon which duties have been imposed—it is not necessary to argue here whether wisely or unwisely—for the purpose of encouraging the production of similar raw materials in this country, on the theory that they can be grown or produced here as advantageously as anywhere else, and that they will be grown or produced as cheaply as anywhere else, as the result of the home competition thus engendered.

In a few industries the effect of the duty upon the raw materials has unmistakably been to prevent any systematic attempt to build up an export trade. The most striking instance of this character is the wool duty. The effect of this duty is perceptible, not only upon the price of home-grown wool, which is enhanced by some considerable part of the duty, but also in its curtailment of importations of the most desirable varieties of Australian and South American fleeces. For this reason among others—and there are several others of importance—there has thus far been no serious attempt to develop an American export trade in woolen goods. The one possible exception to this rule, is in the case of carpets. The American inventions in carpet machinery, and American skill in devising attractive patterns, have enabled some competition in this line, notwithstanding the handicap of the wool duty. But in the matter of woolen and worsted cloths, we have done nothing and can do nothing, and it is of very little moment, so far as our general export trade is concerned, that we cannot.

The best statistics available indicate that the total value of

the exports of all classes of woolen goods, from all countries, do not equal \$300,000,000, which is less than half the total value of the world's exports of cotton goods, and is an insignificant sum, in comparison with the great total of the world's manufactured exports. The tariff duties on the raw materials of the linen manufacture might be cited as another instance of restrictive influence; but the facts show that the world's export trade in linens, instead of increasing, has a tendency to decline, and there are many economic reasons why it is hopeless for the United States to attempt to build up a linen manufacture even sufficient for home consumption.

The same considerations apply in a more limited degree in a few other directions, and there has been much complaint regarding the duty on iron ore, and the 15 per cent duty on raw hides. I am convinced that the effect of these duties, in the matter of our foreign trade in manufactured articles requiring the use of foreign materials thus taxed, has been greatly exaggerated. The duty on hides, first imposed in the tariff of 1897, was roundly denounced as an impediment to the development of an export trade in boots and shoes. An impediment it certainly is; and I doubt if it has been of the slightest benefit to a single American farmer engaged in raising cattle. I should like to see that duty wiped out; it is of no moment as a source of revenue, and of no value as a protective duty; but it has not stopped the irresistible advance of American-made footwear in the markets of the world. It is worth while to prove this statement by the official statistics.

In 1897, when the tariff duty on raw hides was first imposed, our exports of boots and shoes consisted of 1,224,484 pairs, valued at \$1,708,224. In 1903, notwithstanding the tax, the exports of boots and shoes had risen to 4,197,566 pairs, valued at \$6,665,017. In a word, our foreign trade in these products has increased more rapidly in the seven years since the duty was imposed upon raw hides, than in any twenty-five years prior to that time. In all the other manufactures of leather, there has been an increase in exports equally notable, and the value of our exports of leather itself, has grown from \$19,161,446, in 1897, to \$31,617,389 in 1903. If, therefore, the high duty is an impediment to the growth of our export trade, resort must be had to some other source than the official statistics to prove the fact.

And here another consideration enters, of importance to an understanding of the question. I refer to the drawback provisions of the tariff law. Under these provisions 99 per cent of the duties paid upon imported raw materials used in the manufacture of exported articles, will be refunded by the Treasury Department, under certain conditions and regulations. These conditions and regulations are cumbersome and often difficult to comply with; nevertheless, resort to the drawback privilege is general among manufacturers regularly engaged in the export trade. A measure is now pending in Congress, with every prospect of ultimate passage, the purpose of which is to so liberalize and extend the drawback privilege that resort to it may become universal without detriment to the use and value of home-grown materials. The enactment of this measure will, in the judgment of our largest and most experienced exporters, do away with the single impediment to the further extension of our export trade, growing out of duties levied upon imported materials.

There is another side to the question to which I now ask attention, as throwing an important side-light upon a correct conclusion. It refers to a phase in the development of American manufactures which has thus far received little attention from economic students, but which, as I view it, is of paramount importance, in any attempt to get at the fundamental truth. In many lines of manufacture, American supremacy is so completely assured, for one reason or another, that American control of the world's markets has become chiefly a mere matter of business administration and facility. The foreign trade has outgrown the capacity of the home establishment; in considering the question of enlargement to meet the business directly in sight, these manufacturers have been brought face to face with an economic problem which they have settled on ordinary business principles. To illustrate: an American sewing-machine company finds its foreign trade increasing so rapidly as to compel the erection of a new factory: it decides to erect that factory, not in the United States, but in England, where its foreign sales are the largest. Its business still increasing it erects another factory, this time in Germany, or perhaps in France. Here, under the supervision of American superintendents, sustained by American capital, protected by American patents, inspired by American business energy and enthusiasm,

it continues the manufacture and sale of American sewing machines. Two paramount considerations have brought about this transplantation. Questions of freight and transportation are of great moment in it. The matter of wages is obviously of even greater moment. I suppose it is true that, given American patents and machinery, American energy and system in administrative positions, and American methods of the subdivision of labor, manufacturing can be carried on in European countries more cheaply than it can in the United States, by something like the difference in wages paid in the two countries. In this statement I do not take cognizance of the effects of trade-union regulations which result in a greater restriction of output per employee, in certain foreign countries, England in particular, than occurs in the United States. Nor do I take cognizance of the further fact, that, man for man, the average American working-man can accomplish more work, in a given time, and better work, than the average working-man of any other country, and can thus offset, in a very considerable degree, the difference in wages between our own and all European countries. Conceding both these points, it remains the fact that a constantly increasing number of our great manufacturing corporations are constructing vast plants abroad to supply their foreign customers; and of course they would not do this unless experience proved that there was advantage in it. I have before me a long list of these establishments. It indicates that more than fifty million dollars of American money is now invested in European plants devoted to the manufacture of various American specialties, including all descriptions of electric apparatus, sewing machines, belting, radiators, shoe machinery, steel chains, machine tools, hoisting machinery, boilers, pumps, blowing engines, mining machinery, printing machinery, coal-conveying apparatus, elevators, match-making machinery, pneumatic tools, and photographic apparatus.

The Western Electric Company, of Chicago, is interested in extensive factories in London, Paris, Antwerp and Berlin, not all of them carried under the name of that company, but all of them established and controlled by its capital. The General Electric Company has three or four such establishments, and has recently constructed a huge new factory at Rugby in England. The Westinghouse Company has just finished, at Trafford Park in

England, one of the largest electric factories in Europe, employing two or three thousand men, and it has other factories in Havre, France, and St. Petersburg, Russia. The Singer Machine Company has three large plants in Europe, under its direct control. The Chicago American Tool Company is building a plant at Frazerburg, near Aberdeen. The Hoe printing presses are made in London, as is also American linotype machinery. The Draper Company has recently completed its new factory in Lancashire, to supply the greatest cotton-manufacturing district of the world with the American fast-running Northrup loom. This list might be extended indefinitely, and a fine field for investigation is opened for the full measurement of this remarkable transplantation.

Much has been written about the invasion of foreign manufacturing capital into the United States, for the construction of factories to supply the American market, in competition with American manufacturers. A great deal of such capital has found investment here, particularly in the textiles; but the sum total of this American investment of foreign manufacturing capital is a bagatelle in comparison with the American manufacturing capital which has found investment in European countries within the last fifteen years, and is now engaged in manufacturing what are known as American goods on foreign soil. The irruption of American wares, of which the foreign manufacturers have complained so loudly of late, is an interesting and significant phenomenon in connection with the question under discussion. Far more significant, it seems to me, is this construction of American factories on foreign soil, to construct American machinery and appliances by American methods, in direct competition with the strongest foreign establishments, and in bold and avowed determination to control the markets of the world.

Can it be fairly argued that the protective tariff is driving these American manufacturers abroad in order to obtain advantages for competition in the world's market, of which that tariff deprives them at home? To make the claim, is to concede the contention of protectionists, that the tariff is necessary to preserve the high standard of American wages; for, as this paper has endeavored to show, higher wages are the only handicap of American manufacturers seeking foreign markets, of any moment, which can be directly or indirectly attributed to the existence of the tariff. On

the other hand, the question may fairly be asked whether our manufacturers would have been able to invade foreign markets from the vantage-point of foreign soil, if they had not grown so powerful and so masterful, under the protective laws which gave them complete control of the American markets during the period of their infancy and adolescence? To argue this question is to plunge into the polemics of the subject; and this is ground upon which it is no part of my purpose to enter.

I will conclude, therefore, by brief allusion to an aspect of the subject suggested by this remarkable invasion of American manufacturing capital and enterprise into European countries, for the purpose of hand-to-hand competition on their own soil. It will necessarily result—it has already resulted—in a large diminution of our export trade in American manufactures.

Instead of making in America electrical apparatus, cotton looms, all kinds of machinery, tools, etc., to ship abroad for sale, our manufacturers will increasingly produce these wares abroad for their foreign trade, and the statistics of our exports will be correspondingly reduced. They are already so reduced in value and amount to many millions of dollars every year. It may easily come about, in the course of time, that the volume of our foreign trade in manufactures, instead of increasing by leaps and bounds, as it has been doing, will gradually become stationary, and even show a decline. And yet all the time, the actual contribution which the United States makes to the world's commerce in manufactures, will have continued to increase, and will be hidden in the export statistics of the countries to which they have transplanted their mills and machine shops.

All this adds another to many evidences of the rapid advance of what may be called the internationalism of trade. The geographical boundaries of nations are ignored in the stupendous enterprise of modern industrialism. Tariff laws cannot restrain it or control it. Local prejudices cannot circumscribe it; the world is the field of the twentieth century *entrepreneur*; and in the competition for the world's trade, the American manufacturer has the advantage over all the rest. He has behind him a country of unlimited resource; he has the daring and adventuresome spirit which our institutions and our conditions encourage and develop; he has the command of the unlimited capital which our industry and

enterprise have created; and, not the least among his advantages, *he knows how to do it*, because his American training has taught him how. To what extent the protective policy has played a part in the matter, I do not undertake to say. But I declare my belief that the American tariff is no obstacle whatever in the way of the eventual outcome. Many of us will live to see the day when the supremacy of the United States, as the world's manufacturer, will be an undisputed and self-evident fact.

S. N. D. NORTH.

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